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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 006626

SIPDIS

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SUBJECT: U.S. TREASURY DISCUSSES WITH GOI ESTABLISHMENT OF
PALESTINIAN FIU

Classified By: Economic Counselor William Weinstein for reasons 1.4 (b)
and (d).

1. (C) SUMMARY: Israeli military intelligence officials headed by Brigadier-General Kuperwasser met with Treasury policy advisor Lebenson, Post's Defense Attach and econoff to discuss a U.S. Treasury initiative to establish a Financial Intelligence Unit (FIU) or Financial Follow-up Unit (FFU), as suggested by the Palestinians, in order to combat money laundering and terrorism financing in the Palestinian territories. These officials told Lebenson that the GOI is not optimistic about the Palestinians' commitment in fighting terrorism financing because terror money still flows into the territories every month from neighboring countries. They cited historic instances where the Palestinians failed to cooperate to fight terrorism financing and cannot see why things would be different now. Despite the Israeli officials' skepticism, they expressed support for the concept and said that they would be willing to support the FIU and engage in information exchange with the Palestinians. Lebenson also met with Yehuda Shaffer, director of the Israeli Money Laundering and Terror Financing Prohibition Authority (IMPA) who said that the Palestinians need to take considerable steps in order to establish an FIU that is credible and legitimate. He said the global network of FIUs could provide framework where the Palestinians could network and take steps to formulate a plan that will allow them to develop an FIU that is functional.

Ministry of Defense

2. (C) On November 17, Rachel Lebenson, policy advisor in the Office of Terrorist Financing and Financial Crimes in the Department of Treasury, accompanied by the Post Defense Attach Colonel William Clark and econoff, met with MoD officials Brigadier-General Joseph Kuperwasser, Head of the Production Division in the Military Intelligence Department; Lieutenant (Lt) Nir Lasri, Palestinian Authority Analyst; Major Ilan Lukof, Terrorism Finance Analyst; GOI-NSC official Lt. Eyal Pascovich, Terrorist Finance Coordinator in the Counterterrorism Bureau; and Amiram Vardi, Middle East Economic Advisor to discuss the MoD's perspective on the possible establishment of a Financial Intelligence Unit (FIU) in the Palestinian territories.

3. (C) Kuperwasser said the PA is not serious about combating terrorism financing. He indicated that an FIU in the territories under the purview of the PA, or Palestinian Monetary Authority (PMA) would need to carry out its mission in order to be considered a serious player. He characterized the PA's response to terrorism financing as "less than adequate."

4. (C) He claimed that every month millions of dollars enter the territories from countries like Lebanon, Syria, Iran, and Saudi Arabia and end up in terrorist hands. He said that some U.S. financial institutions like Western Union are also involved in facilitating financial transactions between different terror groups. He said the GOI has expressed concern to U.S. authorities, but nothing has been done.

5. (C) Kuperwasser cited previous instances when the GOI acted alone because the PA failed to take action to curb terrorist activity. He said Operation Defensive Shield, which uncovered documents disclosing terrorism financing links, and a bank raid by the GOI in Ramallah in February 2004, both resulted from the PA's inability to control terror elements, forcing the GOI to act alone. He said Salam Fayyad contacted the GOI expressing concern that Israeli officials did not contact him before raiding the bank, but he added that Fayyad would not have acted even if Israeli officials had informed him of this operation.

6. (C) Although Kuperwasser and other Israeli officials expressed skepticism as to whether the Palestinians would be able to create a functioning FIU, they agreed that they would be interested in supporting it. Kuperwasser indicated that it was up to the Palestinians to decide which channels of communication the FIU would use to fulfill its duties, agreeing that discrete communication through the FIUs probably made more sense.

Ministry of Justice

17. (C) Lebenson and econoff met with Yehuda Shaffer, Director of the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA) in the Ministry of Justice. Note: IMPA provides case support information to requesting customers. It receives data from banks, insurance companies, portfolio managers, stock brokers, currency service providers, customs, internal revenue service and others dealing with financial transactions. It processes this information and provides intelligence to the Israel tax authorities, the Israel National Police (INP), and other foreign FIUs. End Note.

18. (C) Shaffer said the Palestinians could consider participating in the Egmont Group's annual meetings, such as the FIU directors' and professionals' meetings, which he said the PA financial officials could use to link up with key financial investigators from other countries. (Note: The Egmont Group is an umbrella organization for FIUs from around the world who exchange information, conduct financial intelligence training, and work towards combating money laundering and terrorism financing. It is not clear in what capacity the PA could attend these meetings, as an observer or otherwise. End Note.) He said the Palestinians have a long way to go before establishing a legitimate FIU that is willing to fight terrorism financing, but he said it is doable.

19. (U) This cable was cleared by Treasury Policy Advisor Lebenson.

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JONES